BOND CLOTHES

WORN BY MORE FASHION-MINDED MEN AND WOMEN

THAN ANY OTHER CLOTHES IN AMERICA

annual report

YEAR ENDED JULY 31, 1963

BOND STORES, INCORPORATED

OFFICERS

Irving Cohen	*Chairman of the Board and Treasurer*
Ellis H. Schechtman	*President*
Irving Moselowitz	*Executive Vice-President*
Sylvan N. King	*Vice-President*
Maurie Sanger	*Vice-President*
Louis A. Good	*Vice-President*
Louis B. Berman	*Vice-President*
William B. Loftus	*Vice-President*
Sidney L. Rosenbloom	*Vice-President*
Robert J. Birnbaum	*Secretary*
John B. Goetke	*Assistant Secretary*

BOARD OF DIRECTORS

H. Roe Bartle
Irving Cohen
Louis A. Good
*Wm. J. Hammerslough
Sylvan N. King
Joseph Klingenstein
Irving Moselowitz
Charles F. Phillips
Maurie Sanger
Ellis H. Schechtman

*Deceased February 9, 1963

TRANSFER AGENT

THE FIRST NATIONAL CITY BANK OF NEW YORK
2 Broadway • New York 15, N.Y.

REGISTRAR

BANKERS TRUST COMPANY
16 Wall Street • New York 15, N.Y.

BOND STORES, INCORPORATED

FIFTH AVENUE AT 35TH STREET

NEW YORK 1, N. Y.

October 25,1963

Dear Stockholder:

On the following pages are copies of the Consolidated Balance Sheet and Statements of Income and Surplus of your Company and subsidiaries for the fiscal year ended July 31, 1963, as reported by the Company's auditors.

Record net sales of $90,262,095 were $1,631,550 greater than the prior year's sales, and $646,248 higher than our previous record sales volume year. This result was achieved despite the adverse effects of curtailed advertising due to the prolonged newspaper strikes in New York and in Cleveland, two of our major markets. The strike began in Cleveland on November 30th, and in New York on December 8th. These dates were at the approximate beginning of the peak Christmas buying period. The strikes did not end until April 8th in Cleveland and April 1st in New York, in both instances, too late to take full advertising advantage of the usual seasonally accelerated pre-Easter demand for apparel. Christmas and Easter are the two most important volume and profit producing periods of the year. Additionally, business was adversely affected nationally by reason of the Cuban confrontation in October, 1962, as well as by extremely unfavorable weather conditions during much of the Fall and Winter seasons.

Net earnings for the year were not equal to those of the preceding year, despite the volume increase referred to above. After provision for Federal income taxes, deductions reflecting the substantial starting-up expenses for new stores opened during the year, and other deductions, net earnings amounted to $2,136,144, equal to $1.27 per share*, compared with net earnings of $2,239,865, equal to $1.33 per share*, as of the prior year-end.

During the fiscal year, 12 new stores commenced operations, one downtown and six shopping center stores in Fall 1962, and five shopping center stores in Spring 1963. In addition, our Jamaica, New York store, closed on May 16, 1962, as previously reported, re-opened on June 26, 1963. We are pleased to inform you that since the re-opening of that store, customer loyalty has been most gratifyingly demonstrated. Based on its performance prior to the closing and since the re-opening, it is our opinion that the Jamaica store would have contributed substantially to volume and profits had it been in continuous operation during the entire period. On May 21, 1963, a fire caused the closing of our Hillside Shopping Center store in suburban Chicago, Illinois. We expect to re-open this store early in 1964. To a lesser extent, the closing of this store also had an adverse effect on volume and profit performance. With the opening of the stores listed above, there were 130 stores and 19 agencies in operation at the fiscal year-end.

While, in recent years, major emphasis has been placed on the opening of shopping center stores, we have not ignored the importance, though somewhat reduced profit potential, of existing and new so-called "downtown" units. Accordingly, where lease terms and conditions are favorable, we are going ahead with our plans for an orderly modernization and refurbishing of existing downtown stores where required and we are also negotiating for new downtown locations where interest is warranted.

We continue our careful exploration of proposals for the acquisition of existing businesses and, during the year, we studied several offers submitted for our consideration. Except for two still under investigation, all other submissions have been rejected.

Cash dividends, amounting to $2,107,104, at the rate of $1.25 per share per annum, paid on a quarterly basis of 31¼¢, were distributed to common shareholders. The balance of earnings was added to surplus, increasing

*based on 1,684,783 shares in 1963 and 1,688,383 shares in 1962.

book value to $32.36 per share. Your Company has paid a dividend in every quarter, without interruption, since 1938.

Total inventory of raw materials, work in process and finished goods amounted to $25,389,208, and was only $867,541 greater than at the prior fiscal year-end. Despite higher raw material costs, increased labor costs, opening and continuing inventory requirements for the 12 new and one re-opened stores referred to above, as well as for new stores planned for opening during the current year, we consider such inventory to be in satisfactory ratio to current sales and future sales expectancy.

Our Balance Sheet continues to reflect the Company's financial strength, stability and liquidity. At the year-end, our net working capital amounted to $41,242,629. The ratio of current assets, including cash and marketable securities, to current liabilities, was 6.4 to 1. Your Company has no bank debt and no funded debt and has no present intention of borrowing. The long-term indebtednesses shown on the accompanying Balance Sheet are obligations of subsidiary companies.

As set forth on the inside back cover of this report, we plan to open eight new stores during the current fiscal period. Thus far, three stores of this group have been opened, one in each of the following shopping centers: Contra Costa Center, Pleasant Hill, California; South Shore Mall, Bayshore, Long Island, New York; Reisterstown Road Plaza, Baltimore, Maryland. A fourth store is expected to be opened for business on October 31, 1963, in the South County Shopping Center, suburban St. Louis, Missouri. Subject to unforeseen delays, the remaining four stores will open in Spring 1964. Since our fiscal year-end, we closed one of our smaller stores (Alton, Illinois) at its lease termination.

As in the past, new leases continue to provide for landlords to build and deliver store premises to us, complete in every detail, except for our own trade fixtures. Because of increased building costs and more stringent financing requirements, landlords are faced with the need for obtaining higher minimum rents. In recognition thereof, and in order to continue our expansion program and development of profitable stores on a minimum risk basis, most of our more recent negotiations have been for shopping center store premises somewhat smaller in size than heretofore. Despite this, we have found that by careful planning, we have been able to allocate a greater percentage of the leased space to customer sales and service areas than in the past.

Our total capital expenditures for the year amounted to $1,570,952. The major portion thereof was for trade fixtures for new stores. The remainder was invested in carrying out our store modernization program, for automating our record-keeping system, and for purchases of factory machinery and equipment in the continuing development of our current cost-cutting, quality-improvement program under the direction of a consulting engineering firm primarily engaged in the apparel and related manufacturing products field. It is anticipated that within the next 12 to 18 months, savings will far exceed program costs and product quality will be materially improved.

In recognition of customer preference for charge purchasing, we now offer a choice of three plans: a 30-day account, a 30-60-90-day payment plan or a 6-month revolving charge account. Customers who prefer the revolving plan are asked to pay a service charge based on each month-end balance. Presently, in two markets, we are experimenting with a charge plan similar to, but providing for a substantially longer period of payment than, our 6-month revolving charge account. We will evaluate the results of this experiment at the calendar year-end and, if found to be satisfactory, we will then advertise and offer the plan beginning next Spring to customers nationally. Under the new plan, if adopted, accounts receivable, as well as volume, should increase because of the extended payment period. Service charge income should likewise increase.

Recent labor negotiations, affecting all production employees, as well as a large percentage of sales and administrative employees, have resulted in the payment of higher wages and increased costs for employee fringe benefits. Additionally, increases of postal rates, employer social security contributions and numerous other items,

have added materially to overall operating costs and expenses, thus narrowing the gross income margin between sales and cost of sales. In order to re-establish a more satisfactory ratio between cost of sales and sales, we have made a number of selling price adjustments, adopted tighter buying controls, set up a system for a daily review of all items of controllable expense and, as previously mentioned, we are presently testing an extended charge plan in two markets.

We are still faced with a tight employment market, particularly in the Rochester, New York area, where our largest factory is located. Nevertheless, as a result of a continuing recruitment and training program, we are maintaining our factories' production at a satisfactory level for current requirements. In this connection, we gratefully acknowledge the cooperation and assistance of the Amalgamated Clothing Workers of America, the United States Immigration Service and the Cuban Refugees Organization.

We record, with deep regret, the passing during the year, of William J. Hammerslough, who served with great distinction as a Director of the Company for seven years.

Although progress achieved last year was not translated into higher earnings, such a result should not indicate a slowdown of your Company's basic growth potential in both sales and profits. Rather, it is a reflection of substantial starting-up costs for new stores. As in the past, we deem it in order to point out to you that while new operations contribute to sales volume, current earnings are penalized to the extent of such starting-up and development costs for the new stores. Additionally, and contrary to our anticipation, several of our newer stores, while having completed their second year of operation, have not yet contributed to profits. This group of stores is now expected to begin adding to profits, rather than to continue to detract therefrom. Should this be the fact, such performance will help to offset, to some extent, the non-recurring extraordinary expense applicable to each new store.

Available statistics disclose a continuing substantial population growth in large urban centers. In keeping with our aggressive philosophy of bringing products to the consumer, rather than of attempting to bring the consumer to the products, we continue to seek out opportunities for further suburban store expansion in areas where we are presently located, as well as in new areas. Additionally, in our never-ending effort to meet and beat competition, so that we shall continue to maintain our dominant industry position, the products we manufacture, as well as those purchased from other sources, are selected with full awareness of customer wants and sophistication and with due recognition of the fact that consumer buying habits and attitudes change periodically.

In further implementation of this policy, we are engaged in a constant study, re-evaluation and selection of merchandise, not only on a regional basis, but on an individual-store-within-each-region basis. We recognize the importance of accuracy and honesty in our advertising presentation and, above all, that the customer seeks quality at a fair price, a condition we are eminently qualified to fulfill.

We close this message with an expression of thanks to our many employees in our factories, our retail stores and our administrative offices, for their devotion, cooperation, diligence and loyalty. We take this opportunity to thank you, our shareholder, for your confidence and encouragement, plus your constructive suggestions, which are always welcome. Last, but not least, we express our appreciation to our many suppliers of raw materials and finished products. Their fair and friendly dealings have contributed to our ability to maintain our policy of offering to the public outstanding values of quality merchandise in the current style and fashion.

Respectfully submitted,

Chairman of the Board

President

BOND STORES, INCORPO

CONSOLIDATED BALANCE

ASSETS

Current Assets:			
Cash (including time certificates of deposit of $1,500,000)			$ 7,372,015
Short-term municipal bond— at cost, which approximates market, plus accrued interest			251,545
Accounts receivable—customers		$15,484,868	
Less: Reserve for doubtful accounts		383,638	15,101,230
Miscellaneous accounts receivable			730,013
Merchandise inventories—Note A:			
Woolens, trimmings, etc.		2,659,855	
Work in process		1,460,781	
Finished goods		21,268,572	25,389,208
Total Current Assets			48,844,011
Other Assets			1,152,567
Fixed Assets—at cost—Note B:			
Land and buildings	$10,151,275		
Less: Reserves for depreciation	2,284,965	7,866,310	
Machinery, furniture, fixtures and equipment	7,760,849		
Less: Reserves for depreciation	3,870,205	3,890,644	
Alterations, improvements and leaseholds	6,534,328		
Less: Reserves for amortization	4,998,446	1,535,882	13,292,836
Deferred Charges:			
Prepaid rent and advances to landlords on improvements to leased properties		735,379	
Unexpired insurance and other prepaid expenses		942,337	1,677,716
			$64,967,130

The accompanying notes are

EXHIBIT A

RATED AND SUBSIDIARIES

HEET AS AT JULY 31, 1963

LIABILITIES

Current Liabilities:			
Accounts payable			$ 2,346,114
Deposits and due to customers			347,265
Accrued expenses and sundry liabilities			2,948,866
Reserve for Federal income taxes—Note C			1,808,278
Mortgages payable—current installments—Note B			150,859
Total Current Liabilities			7,601,382
Mortgages Payable by Subsidiaries—Note B		$2,224,635	
Less: Current installments shown above		150,859	2,073,776
Reserve for Unrealized Profit on Sale of Leasehold			778,000
Capital Stock and Surplus:			
	Shares		
Preferred Stock—par value $100 per share:			
Authorized to be issued in series as designated by the Board of Directors	100,000		
Retired and cancelled	60,000		
Authorized but not designated	40,000		
Common Stock—par value $1 per share:			
Authorized	2,500,000		
Issued and outstanding	1,688,383	1,688,383	
Capital Surplus (no change during the year)		11,596,136	
Earned Surplus—Exhibit B		41,287,881	
		54,572,400	
Less: Treasury stock—at cost (3,600 shares of Common Stock)		58,428	54,513,972
			$64,967,130

an integral part of this statement.

Exhibit B

BOND STORES, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

FOR THE YEAR ENDED JULY 31, 1963

Sales		$90,262,095
Cost of goods sold and stores and general and administrative expenses, exclusive of depreciation and amortization—Note D		85,314,658
		4,947,437
Add:		
Income from owned real estate before depreciation—Note E	$169,129	
Other income—net	344,805	513,934
		5,461,371
Deduct:		
Depreciation and amortization		1,235,227
Net income before Federal income taxes		4,226,144
Provision for Federal income taxes—Note C		2,090,000
Net income		2,136,144
Earned Surplus as at July 31, 1962		41,258,841
		43,394,985
Dividends on Common Stock		2,107,104
Earned Surplus as at July 31, 1963—Exhibit A		$41,287,881

The accompanying notes are an integral part of this statement.

BOND STORES, INCORPORATED

AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS AS AT JULY 31, 1963

NOTE A: Merchandise inventories are stated at or below the lower of cost (prime cost as to goods manufactured by the Corporation, retail inventory method or invoice cost as to other merchandise, substantially on the "first-in, first-out" basis) or replacement market. These methods for pricing the merchandise inventories are consistent with the practice of prior years.

NOTE B: Properties owned by subsidiaries are subject to first mortgages in the amounts of $1,911,000 and $313,635, payable in quarterly installments to December 17, 1967 and monthly installments to September 1, 1964, respectively. At said dates the unamortized balances of the mortgages become due and payable. The Corporation is not liable under such mortgages, but is the lessee of the properties under long term leases, which leases are assigned as collateral under the mortgages.

NOTE C: The Federal income tax returns of the Corporation have been examined to July 31, 1960.

The accompanying financial statements are subject to final determination of Federal, state and local taxes.

NOTE D: The Employees' Profit Sharing and Retirement Fund Trust Agreement, as amended, provides, among other things, for (1) voluntary contributions by eligible employees, (2) contributions by the Corporation and its subsidiaries, out of net earnings for the year as defined in the agreement, based upon the participating employees' contributions, (3) additional contributions by the Corporation and its subsidiaries computed at various percentages of net earnings for the year as defined in the agreement after deducting therefrom $4,000,000 plus $1 per share for any additional shares which the Corporation may issue after December 31, 1952, excluding additional shares resulting from stock dividends or split-up of stock and (4) the right of the Corporation to discontinue contributions to the plan.

The contributions of the Corporation and its subsidiaries for the year ended July 31, 1963, amounted to $59,057.

NOTE E: This item includes intercompany rental on property partly occupied by the Corporation.

GENERAL: As at July 31, 1963, the aggregate minimum annual rental upon real property leases, other than intercompany leases, expiring after July 31, 1966, amounts to approximately $3,296,000. Certain of these lease agreements provide for additional rentals based on sales or for payment of certain expenses, such as real estate taxes and maintenance costs.

In connection with the profitable sale of a leasehold which expires on April 30, 1998, the Company guaranteed performance of the obligations under the lease to April 30, 1996, including net annual rental payments of $24,000 to April 30, 1975 and $32,500 thereafter.

ACCOUNTANTS' REPORT

To the Board of Directors,
BOND STORES, INCORPORATED, New York, N.Y.

We have examined the consolidated balance sheet of Bond Stores, Incorporated, and subsidiaries as at July 31, 1963, and the related consolidated statement of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and earned surplus, together with the notes to financial statements, present fairly the consolidated financial position of Bond Stores, Incorporated, and subsidiaries at July 31, 1963, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.

New York, N.Y.
October 7, 1963

LOCATION OF BOND STORES AND AGENCIES

ALABAMA
BIRMINGHAM

CALIFORNIA
ANAHEIM
EL MONTE
GLENDALE
HOLLYWOOD
HUNTINGTON PARK
LAKEWOOD CENTER
LOS ANGELES (5 stores)
NORTH HOLLYWOOD
OAKLAND (2 stores)
PANORAMA CITY
SAN DIEGO (2 stores)
SAN FRANCISCO
SAN JOSE
WEST COVINA

COLORADO
DENVER

CONNECTICUT
HARTFORD
MILFORD
NEW HAVEN
*NEW LONDON
*TORRINGTON

DELAWARE
*WILMINGTON

DISTRICT OF COLUMBIA
WASHINGTON

FLORIDA
*JACKSONVILLE

GEORGIA
ATLANTA
SAVANNAH

ILLINOIS
ALTON
CHICAGO (7 stores)
HILLSIDE
KANKAKEE
NILES
SPRINGFIELD

IOWA
DES MOINES

KENTUCKY
LOUISVILLE (3 stores)

LOUISIANA
*MONROE

MAINE
*PORTLAND

MARYLAND
BALTIMORE
HYATTSVILLE

MASSACHUSETTS
BOSTON
FALL RIVER
*LAWRENCE
SPRINGFIELD

MICHIGAN
DETROIT (2 stores)
MADISON HEIGHTS
MT. CLEMENS
PONTIAC

MINNESOTA
MINNEAPOLIS

MISSOURI
KANSAS CITY (2 stores)
ST. LOUIS (3 stores)

NEBRASKA
*GRAND ISLAND
*HASTINGS

NEW JERSEY
AUDUBON
EATONTOWN
JERSEY CITY
MENLO PARK
NEWARK
NEW BRUNSWICK
PARAMUS
TRENTON

NEW YORK
ALBANY
BUFFALO (2 stores)
*ELMIRA
HICKSVILLE, L. I.
HUNTINGTON, L. I.
NEW HYDE PARK, L. I.
NEW YORK (6 stores)
ROCHESTER (3 stores)
SCHENECTADY
SYRACUSE
VALLEY STREAM, L.I.

OHIO
AKRON (3 stores)
*ALLIANCE
CINCINNATI (2 stores)
CLEVELAND (5 stores)
COLUMBUS (2 stores)
DAYTON (2 stores)
LORAIN
*SALEM
TOLEDO (2 stores)
YOUNGSTOWN

PENNSYLVANIA
*CHESTER
GERMANTOWN
PHILADELPHIA (2 stores)
PITTSBURGH
READING
SCRANTON
*UPPER DARBY
WILKES-BARRE

RHODE ISLAND
PROVIDENCE

TENNESSEE
CHATTANOOGA
MEMPHIS (2 stores)

TEXAS
*ABILENE
AUSTIN
*CORPUS CHRISTI
DALLAS (3 stores)
FORT WORTH (2 stores)
HOUSTON (4 stores)
SAN ANTONIO (2 stores)

VERMONT
*BARRE
*RUTLAND

VIRGINIA
FALLS CHURCH

WEST VIRGINIA
*PARKERSBURG

WISCONSIN
MILWAUKEE (2 stores)

Factories in Rochester & Poughkeepsie, N.Y., New Brunswick, N.J., and Meridian, Miss.

*AGENCIES

We are pleased to announce the planned opening of the following stores during fiscal 1963-1964

***South Shore Mall**
Bayshore, New York

***Contra Costa Center**
Pleasant Hill, California

***Reisterstown Road Plaza**
Baltimore, Maryland

South County Center
St. Louis, Missouri

Moorestown Mall
Moorestown, New Jersey

Northgate Shopping Center
Revere, Massachusetts

Valley Fair Shopping Center
San Jose, California

Topanga Plaza
Canoga Park, California

*Opened to date